



Other Income; Form 1040 Line 21

If you did not get a W-2, see instructions.	14	Other gains or (losses). Attach Form 4797.	14							
	15a	IRA distributions	15a							
			b	Taxable amount	15b					
	16a	Pensions and annuities	16a			b	Taxable amount	16b		
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17							
	18	Farm income or (loss). Attach Schedule F	18							
	19	Unemployment compensation	19							
	20a	Social security benefits	20a			b	Taxable amount	20b		
	21	Other income. List type and amount	21							
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22							
Adjusted Gross Income	23	Reserved	23							
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24							
	25	Health savings account deduction. Attach Form 8889.	25							



About Other Income; Form 1040, Line 21

- Additional resources listed in L< “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise



Objectives – Other Income; Form 1040, Line 21

Determine:

- Other types of income and how to report them
- Determine the requirements for the cancellation of debt on nonbusiness credit card debt when preparing tax returns
- Determine when canceled credit card debt is included in gross income on Form 1040
- How to properly report income earned from worldwide sources
- Who is eligible for the foreign earned income exclusion
- How to calculate the excludible amount using Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion
- Time Required: 1 hour



Topics



- Other Income



- Nonbusiness Credit Card Debt



- Worldwide Income
- Foreign Earned Income Exclusion
- Period of Stay
- Qualifying Income
- Reporting Other Income



Key Terms

Definitions are always available in the L< online Glossary.

- Blocked Income
- Bona Fide Residence Test
- Coverdell ESA
- Foreign Earned Income Exclusion
- Foreign Tax Credit
- Period of Stay
- Physical Presence Test
- Medicaid Waiver Payments
- Regular Place of Abode
- Tax Home
- Worldwide Income

Other Income

What are some examples?

- Prizes and awards
- Gambling winnings (including lotteries and raffles)
- Cash for Keys
- Jury duty pay
- Alaska Permanent Fund dividends

Income Quick Reference Guide

This list is a quick reference and volunteers should refer to Publication 17 for more information. Do not rely on this list alone. Some of the income items on this chart are out of scope for VITA/TCE. Refer taxpayers with out of scope income to a professional tax preparer. Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.



Table A – Examples of Taxable Income

(Examples of income to consider when determining whether a return must be filed or if a person meets the gross income test for qualifying relative)

Wages, salaries, bonuses, commissions	Military pension
Alimony	Notary fees
Annuities	Partnership, Estate and S-Corporation income (Schedule K-1s, Taxpayer's share)
Awards	Pensions
Back pay	Prizes
Breach of contract	Punitive damage
Business income/Self-employment income	Railroad retirement – Tier I (portion may be taxable)
Compensation for personal services	Railroad retirement – Tier II
Debts forgiven ¹	Recovery of prior year deduction ² (medical, property taxes, etc.)
Director's fees	Refund of state taxes ³
Disability benefits (employer-funded)	Rents (gross rent)
Discounts	Rewards
Dividends	Royalties
Employee awards	Severance pay
Employee bonuses	Self-employment
Estate and trust income	Nonemployee compensation
Farm income	Social security benefits - portion may be taxable - (See Income tab, Railroad Retirement, Civil Service, and Social Security Benefits)
Fees	Supplemental unemployment benefits
Gains from sale of property or securities	Taxable scholarships and grants
Gambling winnings	Tips and gratuities
Hobby income	Unemployment compensation
Interest	
Interest on life insurance dividends	
IRA distributions	
Jury duty fees	
Military pay (not exempt from taxation)	

Table B – Examples of Nontaxable Income

(Examples of income items to exclude when determining whether a return must be filed)

Aid to Families with Dependent Children (AFDC)	Payments to the beneficiary of a deceased employee
Child support	Relocation payments
Damages for physical injury (other than punitive)	Payments in lieu of worker's compensation
Death payments	Rental allowance of clergyman
Dividends on life insurance	Sickness and injury payments
Federal Employees' Compensation Act payments	Social security benefits - portion may not be taxable - (See Income tab, Railroad Retirement)
Federal income tax refunds	
Gifts	



Other Income

See L< for details on these types of other income:

- Medicaid Waiver Payments
- Coverdell ESA
- Nonbusiness Credit Card Debt Cancellation
- Health Savings Account distributions

Worldwide Income



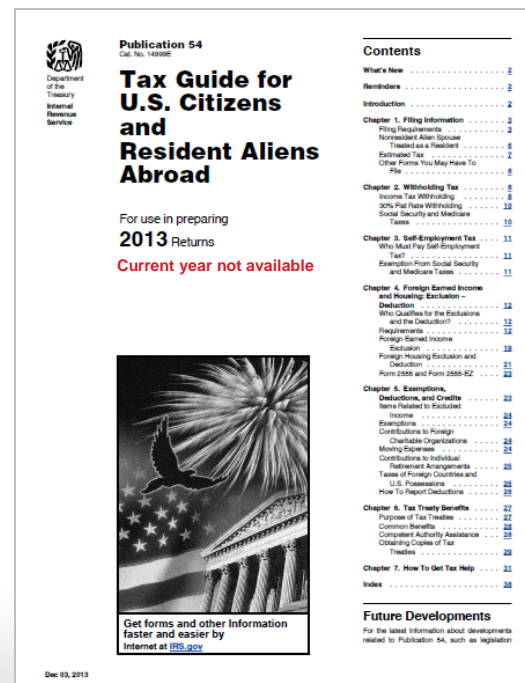
- For U.S. citizens and resident aliens, income earned outside the U.S. is subject to the same taxes and filing requirements as U.S. income.
- Amounts reported on a U.S. return must be converted to U.S. dollars. What exchange rate do you use?
 - Use the rate in effect when the income was received.
- The average annual exchange rate can be used if:
 - Foreign income was received evenly throughout the year, and
 - The foreign exchange rate was relatively stable during the year
- Monthly exchange rates can be used for foreign income earned evenly for one or more months, but not the whole year.

$$\frac{\text{Amount of foreign currency}}{\text{Exchange rate of foreign currency to one U.S. dollar}} = \text{Amount in U.S. dollars}$$

Foreign Earned Income Exclusion



- Allows qualified taxpayers to voluntarily exclude foreign earnings from taxable income – amount is indexed to inflation, updated yearly
- Does not apply to members of Armed Forces or U.S. government employees
- Taxpayers cannot claim the earned income credit or foreign tax credit if using this exclusion
- The term “foreign country” does not include U.S. territories or possessions – see Chapter 4 of [Pub 54](#) for details
- Claimed using [Form 2555](#) or [Form 2555-EZ](#)



Foreign Earned Income Exclusion

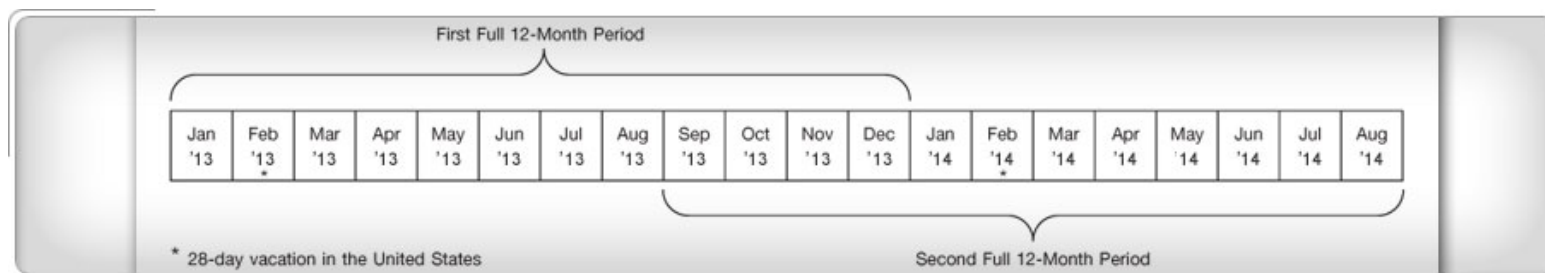


- To be eligible, the taxpayer must:
 - Demonstrate that his or her **tax home** is in a foreign country
 - Meet a period of stay requirement – either the bona fide residence test or the physical presence test
 - Have income that qualifies as foreign earned income
- Married couples – requirements must be met separately for each person
- Taxpayers whose “regular place of abode” is in the U.S. cannot be considered to have a foreign tax home and would not qualify for the exclusion – see [Pub 54](#) for details

Period of Stay



- What is required to meet the period of stay requirement?
 - Bona fide residence test – taxpayer must have set up permanent quarters in a foreign country for an entire, uninterrupted tax year.
 - Physical presence test – taxpayers must be physically present in a foreign country 330 full days in 12 consecutive months



Qualifying Income



- Must be earned income for services (other than military or U.S. government) performed in a foreign country
 - Salaries
 - Wages
 - Commissions
 - Professional fees
 - Self-employment income
- What types of income would *not* qualify?
 - Dividends, interest, capital gains, alimony, social security benefits, pensions, annuities

Reporting on Form 2555 and 2555-EZ



- To use Form 2555-EZ, the taxpayer must:
 - Be a U.S. citizen or resident alien who has wages and salaries, but not self-employment income
 - Have a total foreign earned income below maximum allowed
 - Not claim any business or moving expenses
- Taxpayers who do not meet these conditions must use Form 2555

Form 2555 Foreign Earned Income
Department of the Treasury
Internal Revenue Service
OMB No. 1545-0074
2014
Attachment Sequence No. 34
▶ Attach to Form 1040.
▶ Information about Form 2555 and its separate instructions is at www.irs.gov/form2555.
For Use by U.S. Citizens and Resident Aliens Only

Name shown on Form 1040

Part I General Information

1 Your foreign address (including country) _____

3 Employer's name ▶ _____

4a Employer's U.S. address ▶ _____

b Employer's foreign address ▶ _____

5 Employer is (check any that apply):
a ☐ A foreign entity
d ☐ A foreign affiliate of a U.S. company
b ☐ A U.S. company
e ☐ Other

6a If you previously filed Form 2555 or Form 2555-EZ, enter the last year you filed the form: _____

b If you did not previously file Form 2555 or 2555-EZ to claim either of the exclusions, check one:
c Have you ever received either of the exclusions? _____

Form 2555-EZ Foreign Earned Income Exclusion
Department of the Treasury
Internal Revenue Service (990)
OMB No. 1545-0074
2014
Attachment Sequence No. 34A
▶ Attach to Form 1040.
▶ Information about Form 2555-EZ and its separate instructions is at www.irs.gov/form2555ez.
Name shown on Form 1040 _____ Your social security number _____

You May Use This Form If You:

- Are a U.S. citizen or a resident alien.
- Earned wages/salaries in a foreign country.
- Had total foreign earned income of \$90,200 or less. See line 17.
- Are filing a calendar year return that covers a 12-month period.

And You:

- Do not have self-employment income.
- Do not have business/moving expenses.
- Do not claim the foreign housing exclusion or deduction.

Part I Tests To See If You Can Take the Foreign Earned Income Exclusion

1 Bona Fide Residence Test
a Were you a bona fide resident of a foreign country or countries for a period that includes an entire tax year (see instructions)? ☐ Yes ☐ No

Reporting on Form 2555 and 2555-EZ



- Reporting on Form 2555 and 2555-EZ using TaxWise
 - Link to Form 2555 or Form 2555-EZ from line 21
 - The exclusion amount is calculated by TaxWise and entered as a negative number on Form 1040, line 21

21 Other income.	Amount	0	0
Type: _____			
± Amounts from Forms W2G, 6478, 8814, and 1099M; HSA, MSA, MEDMSA, LTC, Schedules K-1, ESAs, QTPs, NOL carryovers, and recoveries of itemized deductions transfer here. If you are using the statement, check here <input type="checkbox"/>			
AND manually enter 0 on the statement.			
_____ exclusion and amount: 0 Form 2555 or 2555-EZ only.			



Out of Scope for this Lesson:

Distributions from Educational Savings Accounts in which the:

- Funds were not used for qualified education expenses, or
- Distribution was more than the amount of the qualified expenses



Summary

- Line 21, Other Income, includes any taxable income for which there is not a specific line identified.
- U.S. citizens and resident aliens are taxed on worldwide income, and must file a U.S. tax return even if all the income is from foreign sources, and even if they paid (or will pay) taxes to another country.
- Amounts received in foreign currency must be converted to U.S. dollars for reporting on the return. Use the exchange rate prevailing when the taxpayer receives the pay.
- If the taxpayer is eligible to exclude some or all of foreign earned income, complete Forms 2555 or 2555-EZ. The excludible amount will be entered as a negative number on line 21.
- Optional specialty course on Health Savings Accounts is available.

Practice

- Select the practice exercise for Form 1040, line 21, based on your certification course of study.
- Complete the exercise



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VITA/TCE Problems and Exercises **2014 RETURNS**
Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE)

